



DEPARTMENT OF LABOR AND INDUSTRY

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF MAY 2019

Auditor of Public Accounts
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P.O. Box 1295
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August 8, 2019

C. Ray Davenport, Commissioner
Department of Labor and Industry
600 East Main Street, Suite 207
Richmond, Virginia, 23219

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 8, 2019, for the **Department of Labor and Industry** (Labor and Industry). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Labor and Industry is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for Labor and Industry. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Labor and Industry’s ARMICS included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources, revenues and expenses, procurement and contract management, grants management, and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- Labor and Industry has formal, documented policies and procedures over most of its significant business processes. However, Labor and Industry should develop policies and procedures to document controls in place over the agency’s process of tracking, monitoring, and approval of grant fund expenditures in accordance with grant objectives. Further, Labor

and Industry should ensure current policies and procedures over the agency's process of reconciling the Commonwealth's retirement benefits system align with the controls already in place over this process. Management should ensure internal controls in place over all business processes are adequately documented within internal policies and procedures.

- Labor and Industry has not developed and documented certain procedures that govern minimum control requirements for its systems. While Labor and Industry is currently in the process of addressing this, Labor and Industry has not yet completed this task. Management should continue towards its goal of formalizing these procedures in accordance with the Commonwealth's Information Security Standard, SEC 501, by December 31, 2019.
- Labor and Industry does not define and employ processes to establish and monitor information security control compliance by its information technology (IT) service providers on an on-going basis in accordance with the Commonwealth's Hosted Environment Information Security Standard, SEC 525 (Hosted Security Standard). In addition, Labor and Industry does not have a process to document its review and evaluation of service provider reports received from other service providers. Management should develop and implement a process to define and document the division of roles and responsibilities between itself and its IT service providers. Management should also develop and implement a process to annually obtain service organization control reports from its IT service providers, review and evaluate the reports, document the evaluation, and address any control weaknesses, as necessary.

We discussed these matters with management on July 26, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/vks



COMMONWEALTH of VIRGINIA

DEPARTMENT OF LABOR AND INDUSTRY

C. Ray Davenport
COMMISSIONER

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August 21, 2019

Ms. Martha S. Mavredes
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes:

Thank you for the opportunity to respond to the Internal Control Questionnaire Review Results Report for the Department of Labor and Industry (DOLI). The Department will ensure all areas requiring management's attention related to (1) policies and procedures and (2) IT Service Providers are addressed in a timely manner.

We appreciate the courtesy and professionalism of your staff during the review.

Sincerely,

A handwritten signature in blue ink that reads "C. Ray Davenport".

C. Ray Davenport
Commissioner